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June 24, 2003

Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Petition of Verizon for Forbearance from the Prohibition of Sharing Operating, Installation, and Maintenance Functions Under Section 53.203(a)(2) of the Commission's Rules*, CC Docket No. 96-149 – **REDACTED**

Dear Ms. Dortch

In response to questions raised by the Wireline Competition Bureau staff, Verizon is providing the attached. The attachments contain proprietary information and have been redacted. A version is also being submitted on a confidential basis pursuant to the bureau's Protective Order, released May 22, 2003. Please let me know if you have any questions.

Sincerely

Dee May/RD

Attachments

cc: J. Carlisle
M. Carey
B. Olson
R. Tanner
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T. Priess

1. Operating, Installation, and Maintenance Functions Used For Expense Categorization.

While the Commission's rules do not define the types of activities that constitute "OI&M," Verizon has applied the ordinary meaning of the terms "operating, installation, and maintenance" in determining the types of services that may not be shared between the Verizon local exchange carriers and their section 272 affiliates.[1] As an example, the following is a description of the types of activities that Verizon Global Networks Inc. ("GNI") performs either for itself or through contractors that Verizon assumed would fall within the scope of the OI&M restriction. If the Commission granted forbearance from the OI&M restriction, these functions could be provided by the Verizon local exchange companies or by their service company affiliates or other nonregulated affiliates to the section 272 affiliates, or vice versa.

Pursuant to section 53.203(a) of the Commission's rules, GNI does not jointly own switching or transmission equipment, or the land and buildings where that equipment is located, with its affiliated local exchange companies. Examples of the types of equipment and systems that are owned or managed by GNI include;

- Network Equipment
    - Switches (circuit and packet) - voice and data (e.g., Frame Relay & ATM)
    - Transport - Digital Cross-connects (Titans), SONET, and Add Drop Multiplexers
    - Intelligent Peripherals – Advanced Intelligent Network (e.g., SCP, CSN), Common Channel Signaling (SS7 equipment such as signaling transfer points), Calling Card platform, etc.
    - Power (e.g., generators, batteries, inverters)
- Systems
    - Operation Support Systems (OSSs)
    - Element Management Systems (e.g., vendor proprietary system for configuration and surveillance of network facilities)

Installation

"Installation" is typically used to describe the activities associated with initial setup of a product or service, including the provisioning of network equipment and/or systems to provide the service to the end user, as well as the network infrastructure required to support it.

[1] "Sharing" means the provision of OI&M services by the local exchange carrier and its affiliates to the section 272 affiliate or by the section 272 affiliate to the local exchange carrier. It does not include cooperative OI&M activities where the separate workforces of the local exchange carrier and the section 272 affiliates coordinate their design, installation, repair and testing activities on their own networks to ensure that the interconnected facilities function as intended. The activities described in this document as "OI&M" are examples of OI&M services that Verizon used in developing its cost study and do not constitute a comprehensive definition of OI&M.

Installation and provisioning of most voice products and services, such as dial tone long distance, are highly automated.

Installation and Provisioning activities include such things as:

- Layout, assignment, and/or provisioning of circuits
- Configuration of network elements (e.g. switches, cross-connects) and/or systems in order to provide the service to the customer
- Turn-up to ensure that all the piece parts work together correctly before the product or service is turned over to the customer

Maintenance

"Maintenance" is typically used to describe those activities associated with either the correction (repair) or prevention (routine maintenance) of a failure.

Maintenance and/or Repair activities include such things as:

- Routine checking or diagnostic testing of network elements and/or systems and their component parts to detect potential problems before a failure occurs
- Proactive changes in hardware or software to prevent potential problems
- Troubleshooting and diagnosis of problems once a trouble has been reported or an alarm has been detected
- Repair or replacement defective equipment, or correct software error

Operating

"Operating" is primarily made up of those day-to-day activities necessary to keep the network up and running and not already covered by "I" and "M." The line between "Operating" and "Installation and Maintenance" is not always clear, but "operating" usually connotes either an ongoing activity, or one that has multiple or general causes; whereas "Installation and Maintenance" usually connote event-driven activities, e.g., initial service provisioning and resolution of service troubles as they occur. Surveillance is a prime example of an "Operating" activity, even though the response to that surveillance could be maintenance or repair. We have also included here those activities that cut across both installation and maintenance.

- Surveillance[2]
    - Reactive response to alarms and/or failures
- Network Management

[2] Carriers may be able to "see" network elements across transmission paths through other carriers' networks to end user premises. This monitoring or surveillance capability is not the provision of an OI&M service to the other carrier, but rather is part of the surveillance of the carrier's own network.

    - Real time monitoring of voice and data traffic, with intervention as necessary to optimize traffic flow, call completion, etc. (e.g. network controls such as gapping or time-of-day routing to prevent loss of quality due to congestion on the network)
    - Monitoring of, and proactive response to, network events
- Software Patches / Switch upgrades (cuts across maintenance/repair and installation/provisioning)
- Integration / Interoperability (cuts across maintenance/repair and installation/provisioning)
    - Integration of new systems and services with existing network (e.g., ensure interoperability)
    - Integration of new Network Elements with existing systems
- Translations (cuts across maintenance/repair and installation/provisioning)
    - Software and/or translations changes for routing
- Operation of Operations Support Systems and Element Management systems to perform OI&M functions

Relation of OI&M functions to Expense Categories

The chart below shows the OI&M activities relative to the expense categories in GNI's budget. Note that the same activity may fall under multiple categories depending on the context. For example, field personnel might insert a card in a piece of switching equipment to replace a defective card (Maintenance/Repair), to upgrade the hardware version of the card to the most recent revision (Routine Maintenance), or to add capacity to the equipment (Installation).

Function	**Installation**	**Maintenance**	**Operation**
Force	X	X	X
Professional Services			
Field forces	X	X	
Contract Employees	X	X	X
OSS (for operation of GNI Network Elements)	X	X	X
Back Office	X	X	
NOC	X	X	X

Force

The force category includes employees from Operations, Engineering, Information Technology, and Business Services. There are 272 employees in this expense category that support the GNI network.

Professional Services

The Professional Services expense category includes contractors and vendors that perform OI&M functions. Field forces are dispatched whenever maintenance/repair or installation functions require a physical presence at a POP or Hub location. Typical activities would include replacing defective cards or equipment, or attaching temporary diagnostic equipment to the network or network elements to trouble shoot a problem. Contract employees include non-field forces that provide OI&M functions on GNI's premises.

OSS

GNI has its own OSSs, which it uses to operate, install, and maintain its switching and transmission facilities.

Back Office

The Back Office performs error correction on those orders requiring manual intervention that have been detected by the automated provisioning system (installation). Additionally, the Back Office receives customer troubles from the incumbent local exchange carrier via a mechanized interface, opens a trouble ticket, and fixes the problem or routes to the appropriate GNI group for further investigation (maintenance).[3]

NOC

Surveillance and Network Management as described above under "Operating" are examples of GNI NOC functions. The NOC also performs such functions as test and turn-up under "Installation," as well as troubleshooting and diagnosis of troubles under maintenance.

2. Cost Accounting Procedures For Sharing Of OI&M Services.

The following describes examples of the cost accounting procedures that Verizon would apply if the local exchange carriers were permitted to provide OI&M services to the section 272 affiliates. The current definition of non-regulated services being provided by the local exchange carrier would need to be modified in Section II of the Cost Allocation Manual ("CAM"). Verizon currently plans to do so by modifying the service description of "Maintenance, Support and Provisioning of Privately Owned Telecommunications Networks." As noted below, in some cases new cost pools would need to be established. Verizon would file this change in accordance with the filing procedures for CAM changes.

The examples below describe the major groupings of local exchange carrier workforce resources likely to be requested from GNI. In each case, a time reporting code (generally a Field Reporting Code) would need to be created and defined for the technicians to use to charge

[3] The Verizon local exchange carriers may perform ordering functions as part of joint marketing in connection with sales of 272 company services. Such ordering functions are not OI&M functions but are permitted joint marketing under Commission orders.

time to GNI. Verizon would implement time reporting changes in its operations. The overall process for time reporting would not change, so Section 7 of the CAM would not need to be modified.

I. Field Forces

Local exchange company Field Force technicians may perform maintenance and installation functions on GNI switching, transport and data equipment at a GNI point of presence or hub.

> ***Accounting*:** Affected accounts could include Account 6212, Digital Switching, Account 6232, Circuit Equipment and Account 6220, Operator Systems Expense. There already are direct non-regulated cost pools for Accounts 6212 and 6232. A non-regulated cost pool may need to be established for Account 6220, Operator Systems Expense, which would be reflected as a change to the CAM.

II. Surveillance/Provisioning/Testing and Other Specialized Forces in these areas

Local exchange company technicians may monitor the GNI network at the GNI Network Operations Center (NOC), enter translations at the NOC and do testing at the NOC. Test technicians in the NOC provide testing associated with problem isolation as well as test and turn-up of new customer services and/or network infrastructure circuits.

> ***Accounting*:** Affected accounts could include Account 6532, Network Administrative Expense and Account 6534, Plant Administrative Expense as well as Plant Non-Specific accounts, specifically Account 6512, Provisioning Expense and Account 6533, Testing Expense. Direct non-regulated cost pools currently exist in the CAM for Accounts 6532 and 6534. Direct non-regulated cost pools may need to be created for Accounts 6512 and 6533, which would be reflected as a change to the CAM.

III. Back Office Forces

Local exchange company technicians may perform manual investigation and correction of orders that fall out of the automated order management systems and initial investigation of voice troubles referred to long distance from local exchange company trouble center.

> ***Accounting*:** Affected accounts could include Account 6212, Digital Switching, Account 6232, Circuit Equipment, and Account 6533, Testing Expense. As noted above, direct non-regulated cost pools currently exist in the CAM manual for Accounts 6212 and 6232. Direct non-regulated cost pools may need to be created for Account 6533, which would be reflected as a change to the CAM.

3. Ordering and Provisioning Processes Before and After OI&M forbearance.

The attached flow-charts provide examples of the current processes for ordering and provisioning switched long distance services and private line services and the processes that would be applied after the Commission granted Verizon's petition for forbearance from the OI&M restriction. The charts show that the processes would not change as a result of the sharing of OI&M services and that forbearance would not create an increased ability to discriminate against unaffiliated carriers. Verizon would continue to measure its performance in the same way for purposes of demonstrating its compliance with the section 272(e) requirements.

Local Exchange Services

Local exchange services (e.g., mass market dial tone services) are ordered by consumers through Verizon service centers. Their orders are provisioned through local exchange carrier service order and local exchange carrier network systems. These orders are independent of any long distance company processes. Consequently, the ordering and provisioning of these services and would not be affected by OIM forbearance.

Long Distance Services:

Switched (Dial) Service

If a customer (residence or business) wants to purchase Verizon's long distance service, the customer currently places an order primarily through a Verizon incumbent local exchange carrier service center. The long distance affiliates have joint marketing arrangements with the local exchange carriers to take such orders. The order for long distance is entered into the local exchange carrier system, which sends a PIC change to the local switch. Through automated interfaces, the long distance orders are passed to the long distance affiliates for their attention. See Example 1, attached. This ordering process would not change with OI&M forbearance. The necessary processing of the order by the long distance company is generally automated. To the extent an order needs attention by the long distance affiliate, after OI&M forbearance a local exchange carrier employee may do the work function rather than a GNI employee.

Private Line Services

If a customer (most frequently a business customer) orders an end-to-end long distance private line service, e.g., a DS1 Service, most often that order is taken by the incumbent local exchange carrier sales force and passed to the long distance company for provisioning. The long distance company, using long distance company systems and employees, designs the end-to-end service. The GNI network team provisions the interLATA portion of the circuit on the GNI network using the GNI suite of OSSs, and the necessary orders are submitted to the local exchange carrier via an Access Service Request ("ASR") for provisioning of the exchange access or "tail" circuits. See Example 2, attached. The process flows would not change due to OI&M forbearance, however the employees used for each of the long distance functions could be non-GNI employees (local exchange carrier or other) with OI&M forbearance.

4. Assumptions Underlying Estimates Of Incremental Operating Expenses Driven By Structural Separations.

In Table 1 of Attachment 3 in Verizon's June 4, 2003 *ex parte* filing, which is reproduced below, Verizon provided its estimates of the percentages of each GNI expense category that were driven by the requirements of the Commission's section 272 structural separations rules. The following provides the assumptions underlying the percentages shown in Table 1 for OI&M expenses.

Subject matter experts representing GNI Operations, Information Technology, Engineering, and Business Services were assembled to determine the percentages of expenses that were driven by section 272 separations requirements. Several of these experts were among the first few employees hired when GNI was created, and so had first hand knowledge of the history involved in setting GNI up as a separate 272 affiliate. Originally, the group considered all 272-driven costs, and then later identified a subset of these expenses (mostly related to humans resources) as being related to OI&M. The expense categories used were the standard categories reported monthly by GNI's finance group. All financial data was drawn from GNI's Peoplesoft accounting system, are consistent with GAAP, and are the same base of information on which the 272 audits are performed.

Professional Services – These expenses are mainly field forces and contract employees. Using skill set as the deciding factor, the group determined that all field force activities could have been fulfilled by local exchange carrier central office technicians. Furthermore, there are enough local exchange carrier technicians in geographical areas where GNI has built its Hubs and POPs that the work could be absorbed by the existing staff of local exchange carrier technicians. (GNI employs 34 technicians compared to thousands employed by the local exchange carrier).

Contract employees are used in more "generic" jobs where long distance-specific skills are not a requirement. Such positions are frequently clerical or semi-technical. Other positions are technical, but not specific to long distance (those who perform systems or LAN maintenance, for example). Again, these are the types of jobs that could as easily be performed by the local exchange carrier as by an external vendor, and the number of GNI employees is very small compared to the number of local exchange carrier or service company employees engaged in similar work. For these reasons, the group determined that almost all (95 percent) of the professional services expenses were driven by section 272 requirements.

Force & Employee Related — The team, generally at the director level, looked at the functions performed by work groups. Based on the collective experience of the study group, a rough determination was made of whether or not the work functions at issue were predominantly long distance specific, or were not predominantly long distance specific. Some groups, like IT Operations, were large, but were determined not to be very long distance specific; whereas many engineering and operations functions were very long distance specific and involved many employees. The experience of the group was that when merging similar organizations, some synergies would be found despite differences, which would drive the percent driven by separation higher. In the end, the team compromised on a conservative estimate that only 30% of force was driven by 272 requirements.

NOC Expenses – Most of the expense under NOC is employee-related expense for the Data Operations and Voice Operations teams. The same 30% was used here as for the rest of the workforce. Some functions are clearly specifically long distance, but others involve exactly the same skill levels as personnel in the local exchange carrier have.

Back Office – The majority of expense in this category is to pay contractors to intake repair tickets, and to perform manual provisioning of orders that for any reason fall out of the automated provisioning flow. For the initial Trouble Ticket receipt and analysis this group does, the existing local exchange carrier 611 centers (Customer Repair Service Answering Bureau, or CRSAB) can do the same thing, and they are sufficiently large to absorb the incremental work.

The existing local exchange carrier Recent Change Administration Center, or RCMAC, is likewise able and sufficiently large to absorb the incremental manual provisioning of long distance orders. The number of long distance customers and network elements is small compared to what the local exchange carrier supports; the GNI Back Office employs tens of contractors as compared to the local exchange carrier force of thousands. The team kept this number at 80% to be conservative, and to allow for the fact that GNI is growing overall.

OSS – In some cases, long distance specific requirements drove the choice of different network elements, which in turn drove the necessity of GNI having to buy different Element Management Systems and/or OSSs to support the different network element. In other cases, it would have been technically feasible to use same system as the local exchange carrier. A system-by-system review determined that, due to differing long distance business requirements and network elements, roughly a third of GNI's systems would have been required without 272 restraints. The preponderance of these systems support OI&M functions.

Table 1. Incremental Operating Expense Driven by Structural Separations

Expense Category	Description	% of Expenses Driven by Section 272 Requirements
Professional Services	Professional Services consist of the expenses for third-party vendors, primarily to perform field work. If GNI had not been restrained by the Commission's rules prohibiting sharing of operating, installation, and maintenance functions with the BOC, this cost could have been avoided almost entirely by using existing BOC field technicians.	95%
Workforce & Employee related expenses	This includes internal GNI technical employees hired to provide OI&M functions. Although GNI startup required employees with skill sets specific to the long distance network architecture, some efficiencies could have been obtained in the absence of the OI&M restriction for job functions that did not require additional staff for the long distance network, including general administration, sourcing functions, and infrastructure for common service (corporate local area network, email, eWeb, training, etc.).	30%
Leased facilities	Without section 272 restrictions, VZ would have built rings instead of leasing facilities (both for use by GNI and by the local exchange company).	15%
Operational Support System (OSS)	Many of the operating support systems that GNI developed separately to comply with the OI&M restriction, such as inventory, provisioning, order management, trouble management, could have been developed through modification of the BOC systems and reused at a fraction of the costs incurred to develop new systems. The operating support system expense category includes software and hardware maintenance, licenses and right-to-use fees, and non-capital software development.	65%
Hub and POP	Absent the section 272 separation requirements, GNI would have located its facilities within the LEC premises wherever possible in-region. However, many LEC POP & Hub spaces were or are exhausted. A conservative approach was taken, with 80% of Hub & POP rental expenses driven by 272 requirements.	80%
Network	The network operations center provides monitoring and control of	

Operations Center (NOC)	the long distance network. Although the long distance network requires additional operations, Verizon estimates that some of the incremental costs of the network operations center could have been avoided by using the BOC network operations center to provide these functions.	30%
Other	Miscellaneous (e.g., human resources allocation, Peoplesoft – Accounts Payable System, etc.)	25%
Back Office Provisioning (e.g., Calling Card, Repair)	These back office functions for GNI were driven almost entirely by the OI&M restriction. For instance, Verizon would not have built the Altoona or Worcester operator services facilities if these services could have been obtained from the BOC, and most of the costs of the error management and repair centers could have been avoided by using BOC services.	80%

5. Assumptions Underlying GNI's Projected Expenditures For 2003-2006 Period.

In Attachment 4 of Verizon's June 4, 2003 *ex parte* filing, Verizon provided its projections of GNI's expenses for the 2003-2006 time period. In several categories, Verizon's projected substantial increases from the prior years. The primary driver of these increases is Verizon's projected increase in traffic volume, both in the number of minutes and the number of data circuits and transactions. For the 2003-2006 time period, Verizon took into account the launch of long distance service in six additional states in late 2002 and early 2003 as well as the continuing growth in its long distance business in the rest of the states. GNI's traffic volumes continue to grow substantially. As a startup company, GNI's percentage growth rate naturally is higher from year to year than would be experienced by a mature company. For example, GNI's total MOU **********. This is a conservative projection, as GNI has already exceeded its quarterly projection for the first quarter of 2003.

When the original GNI study looking at the expense caused by separation rules was done, GNI expected MOU volumes to **********. After 2004, the expected growth due to increased market share was expected to taper off, but other sources of MOU growth (e.g., take back of resale traffic and enterprise business opportunities) as well as data volumes would still provide strong growth (increasing half again year over year) for the remainder of the planning period. The assumption of exponential growth in volume through 2004 drove larger budget increases for 2003 and 2004 (growing from 6B to 12B MOU/year is more expensive than going from 1B to 2B).

With the launch of long distance service in a state, there is an initial burst of work associated with building the network and then a slower ramp-up as the market share increases. GNI has a "hybrid network build" strategy, which allows it to approximate an economically efficient "just in time" network build strategy. Based on forecasts, GNI initially builds out its network on what it believes to be the high traffic routes. For lower traffic routes, GNI relies on resold facilities. As long distance volumes increase and as GNI has the opportunity to analyze actual traffic patterns in the state, it will (1) build additional network facilities to take back resold traffic on routes where the traffic volume supports the build, and (2) build out more end office

trunking to optimize access. These activities drive the need for additional human and systems resources. Network expansion outside of the former Bell Atlantic footprint follows the same process.

As the volume of traffic goes up, so does the number of installations (at some point churn keeps this growing as total volume grows), the number of orders that fall out of the automated processes, the number of switches, circuits, etc. to be monitored, as well as the number or troubles to be investigated on all of the above. Most of these increases will be felt in NOC and Back Office and the systems to support them. The relationship of traffic volume to these resources is not linear – if the traffic volume doubles, the NOC does not double – but it will grow as the volume grows, with occasional big spikes as GNI outgrows the capacity of existing physical resources.

In addition to these general drivers, the following describe the forward planning drivers for each expense category in more detail.

Force – As the network is expanded, additional force is required across many OI&M functions. As mentioned above, when the network volume doubles, force goes up, but it does not increase on a linear level because economies of scale are realized even on this small level. The activities for which force must be added include all three categories of activities (Operations, Installation, and Maintenance), but the most directly affected are installation activities. Some typical examples include:

- Installation of new network infrastructure circuits (from ordering to inventory and final test and turn-up)
- Adding capacity to existing network equipment (e.g. switches, DWDM or SONET transport, digital cross connects)

Professional Services – As the number of Hubs and POPs increase, the amount of equipment to be installed, operated, and maintained goes up as well, requiring more hiring of independent contractors for field forces. Since these forces are usually local, a new GNI POP or Hub site will require additional force to be added (economies of scale would exist with the local exchange carrier, but not within GNI).

OSS – Much of the systems expense is related to hardware and software on existing systems. Even without major changes to the applications themselves, this expense will go up because of such things as (1) system upgrades (e.g. change of the OSS to a newer version without change in functionality); (2) addition of new functionality (non-capital); and (3) inflation. GNI also foresees changes in the systems on top of these "business as usual" expense increases. The volume of transactions to be processed as network volumes grow exponentially will drive some system upgrades. GNI is also adopting new technology (e.g. DWDM and softswitch) that will require changes to existing systems, and perhaps in some cases altogether new systems.

NOC – As described above, as the size of the network and the volume of traffic it carries increases, so do the problems, the amount of equipment to be monitored, etc.

Back Office (provisioning error fallout, trouble management) - As the number of orders increases, the number of orders that "fall out" of the automated processes and require manual intervention increases as well. Troubles also increase with the number of calls and/or customers, requiring more (or at least not allowing fewer) back office personnel. Even if the percent of total transactions involving back office intervention is reduced, as the absolute number of transactions increase, the personnel to support the volume will increase as well.

6. Assumptions Underlying Estimates Of Projected Cost Savings For 2003-2006 From Elimination Of Structural Separations.

In Table 3 of Attachment 3 in Verizon's June 4, 2003 *ex parte* filing, Verizon provided its estimates of the percentages of each GNI expense category that could be saved over the 2003-2006 time period if the Commission eliminated its section 272 structural separations rules. The following provides the assumptions underlying these percentages.

In order to create and quantify the benefit of a reintegration plan that could actually be implemented, GNI would need to know in detail:

- The timing of such relief
- Which jobs, systems, equipment, facilities, real estate, etc., could and could not be reintegrated with the local exchange carrier and/or service company
- Whether or not relief would be in the form of OI&M with or without full 272 sunset (this affects the rules that apply and therefore how cumbersome it would be to implement any arrangement between GNI and the local exchange carrier or service company)
- Of the functions which might be reintegrated after taking into account all of the above constraints, what subset of functions actually would be economically viable to reintegrate

Changes in any of these assumptions would materially affect the savings Verizon and/or GNI could expect to reap from such a "bottom up" plan. Since such information was not available at the time, GNI used a generic approach, based on high level calculations to assess sunk costs and anticipated savings as percentages of actual and planned future expenses.

The percentage savings in each of the OI&M expense categories that involved people were phased in over a three year period in order to calculate the expected savings if the OI&M restrictions were no longer applied. (The exception is the OSS savings, which are described elsewhere).

GNI did not assume a flash cut to new processes. The team recognized that an orderly transition is a complex task that requires planning, training, transitioning staff, and physical moves among other things – all without disrupting customer service, growth of the GNI network, and handling of the increasing voice and data volumes.

Several members of the team had experience with one or more mergers in the past. Based on these experiences, the following cycle was assumed:

0----------6----------12----------18--------24----------30----------36 month
|<-plan->|<-implement->|<-assess->|<-plan->|<-implement->|<-assess->|

During the first planning cycle, detailed exchanges drive learning between the two organizations, which inform the detailed implementation plan. Savings begin to kick in once the first plan is implemented, and ramp up over the assessment and implementation period. The assessment period allows the team to observe and correct any problems or issues. Experience during the set-up of GNI proved that there are many seemingly trivial changes that have to be checked and cleared through multiple layers of regulatory and legal review internal to Verizon. A three-year period was judged sufficient to handle the integration, and to allow for the resolution of any issues that might arise during the process. Therefore, the assumption was that one third of the savings could be achieved in the first year, two-thirds in the second, and the full savings by the third year for most OI&M expense categories. For professional services and back office, Verizon assumed that proportionally more of the savings could be achieved in the first year because of more flexibility to shift from third-party providers to Verizon employees.

7. Costs Of Reintegrating the OI&M Functions Of GNI And The Verizon Local Exchange Carriers.

Verizon's estimates of the savings that it would realize if the OI&M restriction were lifted did not separately itemize costs of reintegrating GNI's OI&M functions with the local exchange carriers through forbearance, because Verizon deliberately sought to avoid writing off "sunk costs" that have already been incurred due to the Commission's separate affiliate rules. Verizon assumed that GNI would not attempt to flash cut to the future mode of fully integrated operations if OI&M relief were granted, that GNI would not strand any assets unless it were unavoidable, and that GNI would not spend money now to achieve reintegration savings later. From the outset, Verizon's objective was to minimize the cost of reintegration.

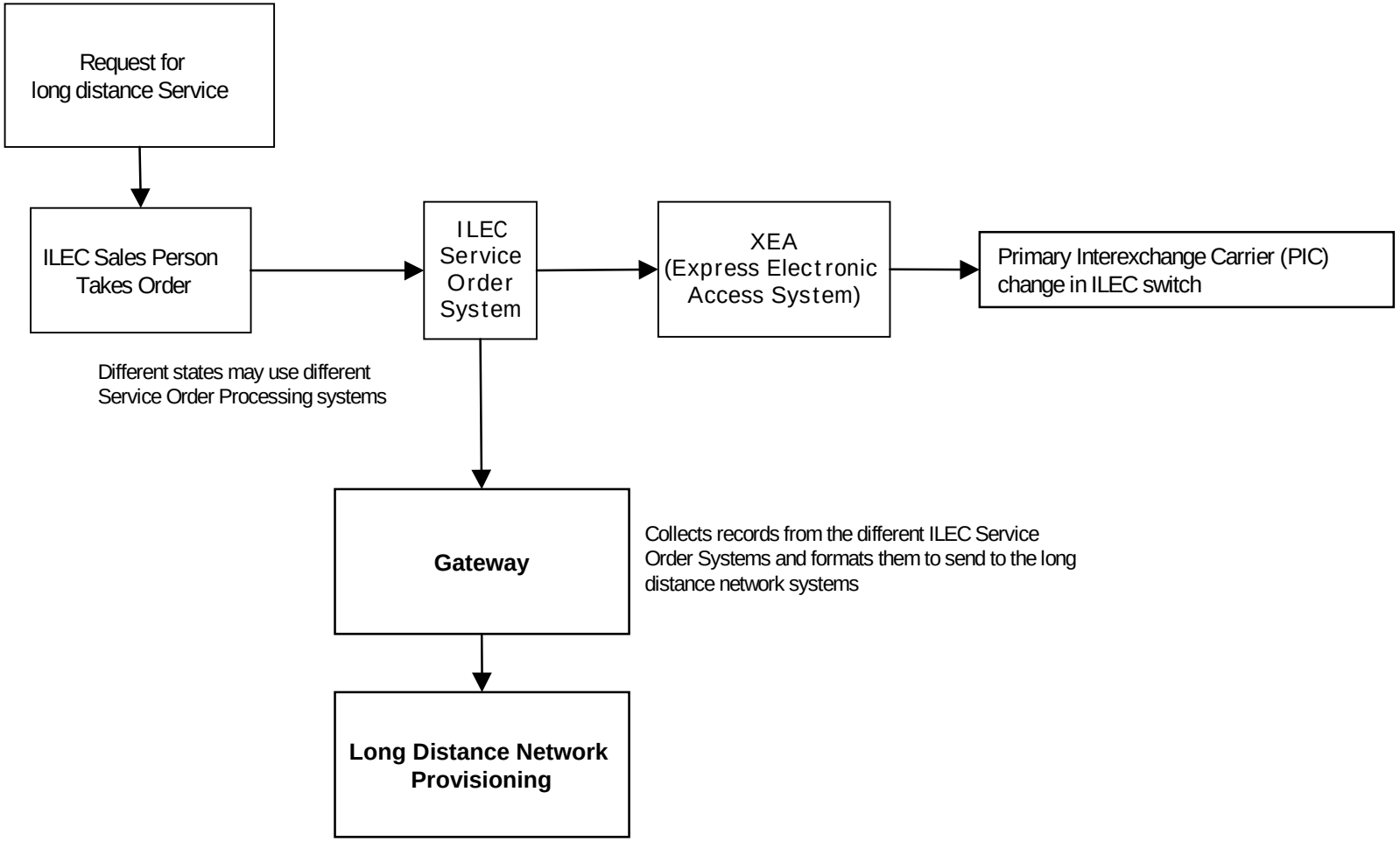
For instance, the OSS team looked at the GNI suite of OSS systems to identify (1) those system that were common to GNI and its affiliates, and (2) those systems that were functionally similar, such that the GNI function could be consolidated with the existing Verizon system with minimal change. In fact, there were very few opportunities identified using these criteria. The cost of shutting down most existing GNI OSS systems and stranding those assets, coupled with the (now twice duplicated) expenses of moving the functionality back to existing Verizon systems, was prohibitive. In all, only $4 million in expense cost savings/cost avoidance were identified, at an expense of $750,000 to realize these savings. The net of these two ($3.25 million) is what was submitted for the forward-looking OSS cost savings in Verizon's June 4, 2003 *ex parte* filing.

There are two reasons why there are no write-offs for force reduction. The first is that, in keeping with the "no flash cut" rule, GNI would phase in organizational changes over time and take full advantage of attrition during the transition period. The second, and far more significant consideration, is the growth of long distance voice and data volumes carried on the GNI network. Unlike in a merger situation where growth and demand are static, GNI is in a period of high

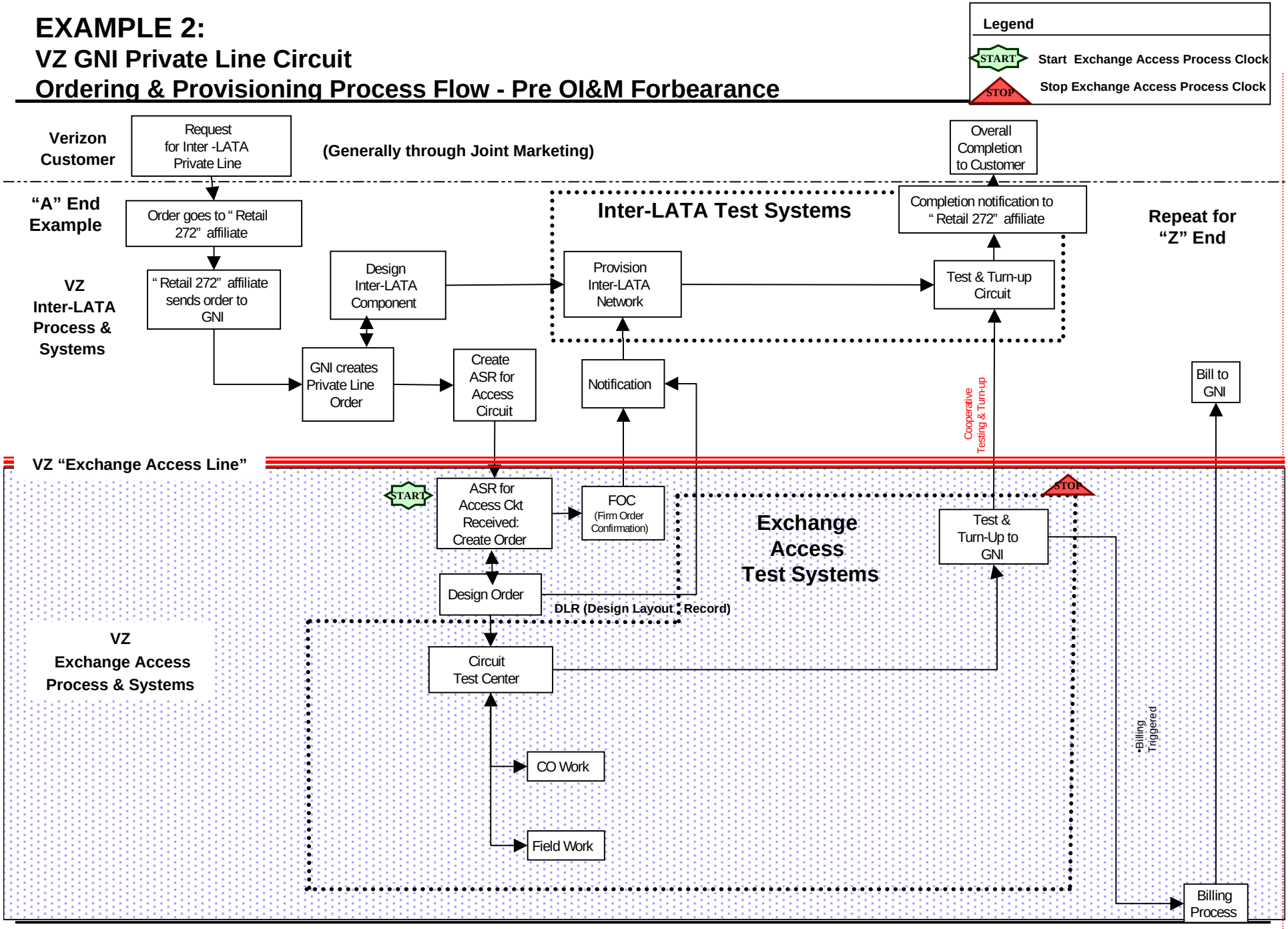
percentage growth. In 2002, GNI carried ******** minutes of use (MOU) on its built network (not counting resold MOU carried by other interexchange carriers). In 2003, the budgeting assumption was that GNI would carry ******** MOU on its own network – a number which is probably too low, given that in April GNI was already ******** above the anticipated level. Thus, it is unlikely that GNI will need to reduce headcount. OI&M work performed on behalf of GNI by the local exchange carriers or service companies would mean fewer GNI employees hired, rather than any work force reduction. And, given that GNI has roughly 650 employees out of approximately 250,000 total Verizon employees, it is reasonable to expect that much of the work could be absorbed within GNI's affiliates without force reduction costs.

EXAMPLE 1:
Switched (Dial) Inter-LATA Ordering & Provisioning Process Flow – Pre and Post OI&M Forbearance

The process flow is automated and would not change with OI&M Forbearance



EXAMPLE 2:
VZ GNI Private Line Circuit
Ordering & Provisioning Process Flow - Pre OI&M Forbearance



EXAMPLE 3:
VZ GNI Private Line Circuit
Ordering & Provisioning Process Flow – with OI&M Forbearance